

***United States Court of Appeals  
for the Second Circuit***



**APPELLANT'S  
REPLY BRIEF**



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**United States Court of Appeals  
For the Second Circuit**

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WALLACE CLARK & CO., INC.  
*Plaintiff Appellant,*

v.

ACHESON INDUSTRIES, INC.,  
*Defendant-Appellee.*

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*On Appeal From The United States District  
Court For The Southern District of New York*

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**APPELLANT'S REPLY BRIEF**

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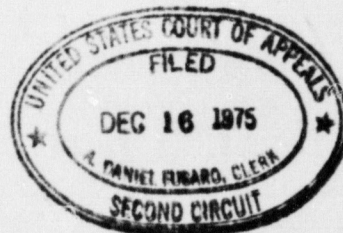


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PLAINTIFF-APPELLANT REPLY BRIEF

Broadview and Schnitger Did Not  
Rule on the Effect of Lear

The basic issue in this case is whether the entry of consent judgment containing a recital of validity and a single product as an infringement bars a licensee (Wallace Clark) from challenging validity as a defense generally to a claim for royalties or specifically to a claim for minimum royalties. We submit this issue is open in this circuit.

The precise holding of Addressograph-Multigraph v. Cooper, 156 F.2d 483 (2 Cir. 1946) was that a decree which recited that the patent was valid but did not contain any recital as to infringement did not constitute res judicata as to validity. In Broadview Chemical Corp. v. Loctite Corp., 474 F.2d 1391, 1395 (2 Cir. 1973) involving contempt, this Court held that since there was no pleading or proof as to validity there was no reason to extend Lear to overrule Addressograph. Judge Weinfeld so interpreted Broadview Chemical. See 394 F.Supp. at 399-400 (A45-6).

When Broadview appeared in this Court in 1973, it was the culmination of lengthy litigation. The first action was terminated in 1967 when the parties entered into a consent decree in which Broadview admitted patent validity and that Broadview infringed (474 F.2d at 1393). Broadview was before this Court at least three times before and after Lear, 406 F.2d 538 (1969), cert. den. 394 U.S. 976 (1969); 417 F.2d 998 (1969)\* and

\*This decision was rendered on October 29, 1969 after the Lear decision of June 16, 1969. No claim was then made that the patent was invalid or that Broadview had any right to contest validity under Lear. Thus, in the latter decision, 474 F.2d 1391, there was no reason for the Court to consider the belated claim under Lear.



474 F.2d 1391 (1973) and before the District Court at least twice in reported decisions, 311 F.Supp. 447 (D. Conn. 1970), 53 F.R.D. 353 (D. Conn. 1971). There were contempt motions based on the earlier consent decrees, and extensive factual adjudications as to damages, and infringements (some thirty-two products were involved and there were specific findings on specific products).

The precise holding in Broadview was stated by this Court as: (474 F.2d at 1395)

"In light of the record before us which fails to establish any pleading or proof of invalidity, we see no warrant here to extend Lear or to overrule Addressograph."

We therefore submit that the issue as to the res judicata effect of the consent judgment, having a recital of validity and infringement, in connection with the right to raise validity as a defense to a contract suit for royalties, has been left open by Broadview.

Further, the Ninth Circuit has expressly left the issue open in Herbert Rosenthal Jewelry Corp. v. Kalpakin, 446 F.2d 738, 739-40 (9 Cir. 1971). Schnitger v. Canoga Elec. Corp., 462 F.2d 628 (9 Cir. 1972) was decided shortly after Herbert Rosenthal and was relied upon by Judge Weinfeld as deciding the issue at bar. In a per curiam decision in Schnitger, the Ninth Circuit held that the defendant's subsidiary, Scanbe, obtained a "judicial decision" in 1966 that the patent was valid and that Tryon had infringed. The Court of Appeals decision says nothing about a default judgment or of any issues which may have been opened by Lear and which were expressly reserved in Herbert Rosenthal. Judge Weinfeld went behind the decision and reviewed the appeal record and stated that the

holding in the instant case follows a fortiorari, 394 F.Supp. at 401 (A47). However, as we view the "judicial decision" entered in Schnitger, it was more than a simple default judgment. In an official report by the clerk of the Court pursuant to 35 U.S.C. 290 reprinted 858 O.G., page 720 (January 21, 1969)\* it is stated:

"Re. 25,595, Schwab, Beale and Anderson, PRINTING CIRCUIT BOARD FILE, filed May 25, 1965, D.C., S.D. Calif. (Los Angeles), Doc. 65-784-PH, Applied Development Corporation v. William Tryon. Defendant, William Tryon, doing business as Tryon Components, motion to dismiss the complaint is denied. Plaintiff's motion to dismiss the counterclaim or to strike certain allegations of the counterclaim is denied. Plaintiff's motion to substitute Scanbe Manufacturing Corporation for the Applied Development Corporation is granted. Order for default judgment granted, Sept. 23, 1968." [Emphasis Ours]

Thus, the defendant Tryon, had moved to dismiss the complaint and that other motions were made and decided by the Court in a contested matter. We think it is immaterial which specific defenses were raised by defendant Tryon; since the Court rejected such defenses the argument for res judicata effect based on actual Court adjudication is much stronger than in a consent decree situation or a simple default judgment.

\*35 U.S.C. 290 is reprinted as addendum 1. This statute requires the clerk of each Court to notify the Commissioner of Patents after any judgment is rendered by any Court on any patent. These notices are reprinted in the Official Gazette, the official report of the United States Patent Office.

We do not believe that Schritger is precedent for the issue at hand particularly since the Ninth Circuit had stated that the issue remained open in Herbert Rosenthal.

Finality in Ending Disputes Should  
Not Be the Paramount Policy

The main reason claimed on behalf of consent decree estoppel is the finality given to the ending of disputes which relieves the judicial administration and by reducing the number of court cases. This argument was made before Lear and rejected.

Court congestion is reduced here primarily by according finality to all categories of patent dispute settlements from (1) those claims of patent infringement which are resolved by a license agreement, without ever reaching a court (Lear); (2) claims in patent disputes which are settled by agreement after an infringement suit is started (Kraly); (3) claims in patent suits settled by agreement with stipulation of dismissal (Rialto); (4) disputes settled by consent decrees with a license (Crane); and (5) in the final category, disputes settled by consent decrees finding validity and infringement.

If the paramount policy is to provide for finality in disputes, then there is no reason to isolate one category of resolution while the others may now be fully contested under Lear. Compare Rialto, Kraly, Lear, Crane, with Addressograph and the facts herein.

All of this is reminiscent of the problems appearing in the cases of licensee estoppel before Lear. In 1948 the Supreme Court in United States v. U.S. Gypsum Company, 333 U.S. 364,



stated that it "repeatedly held that the licensee may attack the validity of the patent under which he was licensed" (page 387), but Justice Frankfurter pointed out that this was mere dictum. (Id. at page 402-03 concurring opinion). Again the same argument was raised by the conflict between judicial administration and the public interest in the primacy of free competition. See the analysis in Kramer, "Estoppel to Deny Validity - A Slender Reed," Vol. 23, Intramural Law Review, New York University School of Law, No. 4, page 237, see particularly pages 238 and 240, May 1968. Obviously the rule of licensee estoppel kept many licensee suits out of the courts, but the argument in favor of judicial administration was not accepted in Lear and in Blonder-Tongue Laboratories Inc. v. University of Illinois Foundation et al. As noted in Kramer, supra, page 240:

"In terms of judicial administration, license agreements have freed the courts to some extent by keeping the number of patent infringement suits down. In addition, the estoppel doctrine has probably diminished the number of disputes reaching the courts still further."

As we pointed out previously, the Supreme Court, 402 U.S. at 345, fn 43 noted approvingly Judge Will's decision in Kraly that a settlement agreement did not bar a challenge to validity.

In a recent decision of the Third Circuit, American Sterilizer Company v. Sybron Corporation, \_\_\_ F.2d \_\_\_, \_\_\_ USPQ \_\_\_ (Appeal No. 75-1305/6, November 7, 1975), the question presented was whether a licensee must first terminate the license agreement before being

allowed to challenge the scope and validity of the patent.\* We recognize that the issue in American Sterilizer was different since there was no consent judgment and certainly no finding of validity and infringement. But on the broader question as to the meaning of public policy as opposed to the form of consent judgment, the Third Circuit noted that the point of Lear in unmuzzling the licensee was to prevent the public from suffering, by paying tribute to what would be monopolies without justification. The Court stated that the result it reached does not depend on the form of the license agreement. We also submit that the decision of this Court should not depend on the form of the consent judgment or on the presence or absence of a clause relating to infringement. The Third Circuit said said, Opinion, page 9:

"Both agreements permitted termination, and both licensees failed to comply with the termination provisions. Thus, the Supreme Court's reference to "muzzling" in Lear does not depend upon the presence or absence of a license termination clause."

The Third Circuit further noted that the issue of validity was raised from the commencement of the action, an important difference from Broadview where the claim of invalidity was raised for the first time on appeal, and held that the scope of patent as well as

\*In the usual case, it is to the licensee's advantage to keep the license in force while challenging validity; otherwise, the licensee is exposed to possible injunctive relief. In our case, Wallace Clark had asked to have the license rescinded because it is not now making any products which are covered by the patent in suit and is not making the one product the "530" which is identified in the consent judgment.

the issue of validity is a matter for trial.\*

We submit that the lower courts should not sign consent decrees which decree that the patent is valid and infringed. We further submit that the analysis made by Judge Will in Butterfield v. Oculus Contact Lens Corp., 332 F.Supp. 750 (N.D. Ill. 1971)\*\* and in Kraly v. National Distillers & Chemical Corporation, 319 F. Supp. 1349 (N.D. Ill. 1970) be adopted by this Court. Judge Will stated in Butterfield v. Oculus Contact Lens Corp., 332 F.Supp. 750, at 760:

"Neither the Supreme Court nor our Circuit has had occasion to consider the question of estoppel by agreement or consent judgment post-Lear. We have done so, however, in Kraly v. National Distillers & Chemical Corp., 319 F.Supp. 1349 (N.D. Ill. 1970). As discussed there, the value judgment involved concerns two public policies: (1) the undesirability, discussed in Lear, of having licensees and the public pay royalties to one who does not have a valid patent; and (2) the desirability of encouraging settlements of lawsuits. We concluded in Kraly that the former outweighed the latter. That conclusion seems even more appropriate here. In the consent judgment entered in the Oregon case, the plaintiffs acknowledged the validity of the Butterfield patent and the defendants acknowledged the validity of the Tuohy patent. If all were estopped from challenging the validity of both patents, the result would be that the parties having the greatest economic interest in the patents would be foreclosed from ever asserting their invalidity. If Plastic's licensees are likewise estopped, as plaintiff contends, then the likelihood of anyone ever challenging either patent is even more materially reduced. While we do not suggest that there was any collusion in the

\*Whatever decision this Court reaches it appears that the defendant now agrees that the consent judgment does not bar trial on the scope of the patent. This would allow prior art and other evidence to be admitted which would ordinarily go to the issue of validity.

\*\*Affirmed, \_\_\_ F.2d \_\_\_, 177 USPQ 33.



consent judgment here involved, the potential for abuse is obvious and the public damage which could result is equally apparent.

"We see no reason why the public should be exposed to paying royalties on an invalid patent. For this reason, we have consistently in the past refused to sign consent decrees or judgments in patent cases containing a finding that the patent involved was valid or that it had been infringed by the defendant. We believe that the validity of a patent should not be removed from challenge by agreement of parties who have an economic interest in it by virtue of being its owner or a licensee under it. As we read Lear, as well as the implications of *Blonder Tongue Laboratories, Inc. v. University of Illinois Foundation et al*, 402 U.S. 313, 91 Ct. 1434, 28 L.Ed.2d 788 (1971), the public interest is the paramount consideration." [Emphasis ours]

It may well be that the two public policies are in conflict but the greater benefit to the public at large as opposed to the lesser benefit accruing in terms of judicial administration should be decisive. The decision should not turn upon the form of decree or a recital that one or more products are infringed.

The Decisions of the Seventh Circuit  
Leave the Issue Open

The decisions in the Seventh Circuit reveal the inadequacies of premising res judicata by including a recitation of infringement. That validity itself involves the substance of the controversy was pointed out in Judge Clark's dissent in Addressograph.

In Crane Co. v. Aeroquip Corp., 504 F.2d 1086 (7 Cir. 1974), a first patent law suit was filed by the plaintiff against the defendant which was terminated by a consent decree and one in which the defendant entered into an exclusive license agreement.

504 F.2d at 1088. We submit that this form of settlement and decree did much more than determine a hypothetical question.

However, the Court of Appeals stated:

"Defendant was within its rights to test validity after entering into the consent judgment of validity. Business Forms Finishing Service, Inc. v. Carson, 452 F.2d 70, 75 (7 Cir. 1971); Kraly v. National Distillers and Chemical Corp., 502 F.2d 1366 (7 Cir. 1974).

On the merits, the Court held the patent to be valid. But the judgment of the Court did nothing more than to state that the accused devices were within the exclusive license. This was exactly what had been determined by the consent judgment previously. The important point in Crane is that the consent judgment did not bar an attack on the validity of the patent.

The Court of Appeals affirmed at \_\_\_ F.2d \_\_\_, 177 USPQ 33 adopting the positions of the District Court's opinion relating to validity but not reaching the other questions raised. In the recent decision of USM Corporation v. Standard Pressed Steel Co., \_\_\_ F.2d \_\_\_, USPQ Appeal No. 74C1514, decided October 22, 1975, the Court noted that it had not decided the question as to whether a consent decree which had adjudicated validity and infringement was res judicata. (See footnote 2). In view of the Seventh Circuit's statement that the issue remains open, we do not now suggest that the Seventh Circuit has expressly adjudicated this question although we had thought, as apparently did Judge Weinfeld and Judge Moody, that in view of Crane and Kraly the Seventh Circuit had substantially disposed of the issue.



### CONTEMPT PRESENTS A DIFFERENT ISSUE

It is true that both a contempt case and this case present the issue of the res judicata effect of a prior judgment. However, in contempt, the Court's authority is at stake. In U.S. ex rel Shell Oil Co. v. Barco Corporation, 430 F.2d 998 (8 Cir. 1970) was a criminal contempt case. The Court held that even if a consent decree were subject to collateral attack, that was no excuse for contemptuous conduct. 430 F.2d at 1002 (fn. 8). The Court suggested that defendants could have made an effort to modify or reopen the judgment rather than proceed in defiance of a mandate (Ibid). Thus, Shell Oil is distinguishable.

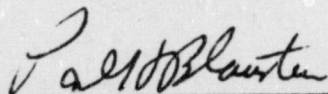
Here, in the case at bar, we have an express holding that there is no contempt. And we do not know of any case, except the Seventh Circuit cases, which has decided the question of the effect of a consent decree on a question of contract defense to a claim for royalties.

We submit that the contempt cases of Schlegel and Shell Oil are not dispositive.

### CONCLUSION

We submit that the decision below should be reversed.

December 15, 1975

  
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35 U.S.C. 290

§ 290. Notice of patent suits

The clerks of the courts of the United States, within one month after the filing of an action under this title shall give notice thereof in writing to the Commissioner, setting forth so far as known the names and addresses of the parties, name of the inventor, and the designating number of the patent upon which the action has been brought. If any other patent is subsequently included in the action he shall give like notice thereof. Within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the Commissioner. The Commissioner shall, on receipt of such notices, enter the same in the file of such patent.

ADDENDUM 1



Wallace v. Achen - Hopwood.

STATE OF NEW YORK )  
: SS.  
COUNTY OF NEW YORK )

ROBERT BAILEY, being duly sworn, deposes and says, that deponent is not a party to the action, is over 10 years of age and resides at 280 Richmond Avenue, Staten Island, N.Y. 10302. That on the 16 day of Dec 1975 deponent served the within Brief upon:

Pennie Edmonds

attorney(s) for

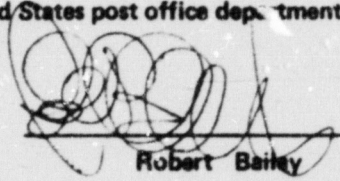
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in this action, at

330 Madison Ave

NYC 10017

the address(es) designated by said attorney(s) for that purpose by depositing 3 true copies of same enclosed in a postpaid properly addressed wrapper, in an official depository under the exclusive care and custody of the United States post office department within the State of New York.

  
Robert Bailey

Sworn to before me, this 16  
day of Dec, 1975

William Bailey  
WILLIAM BAILEY

Notary Public, State of New York

No. 43-0132945

Qualified in Richmond County

Commission Expires March 30, 1976